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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D C 20548

COMMUNITY AND ECONOMIC
DEVELOPMENT DIVISION

IN REPLY
REFER TO

July 11, 1977

Mr. Donald C. Cole
Acting President and
Chief Executive Officer
United States Railway Association

Dear Mr. Cole.

In accordance with the Government Corporation Control Act, we have completed an audit of the financial statements of the United States Railway Association (USRA) for the period July 1, 1975, through June 30, 1976, and issued our report to the Congress entitled, "Examination of the United States Railway Association's Financial Statements and Other Matters Concerning Its Operations" (CED-77-64 dated July 8, 1977). We also observed several other matters during our examination which we wish to bring to your attention These matters were discussed with the Comptroller, the former Assistant Comptroller, and the Director of Audits who indicated that corrective action would be taken

INTERNAL CONTROLS OVER
CASH TO BE IMPROVED

We noted that USRA had not reconciled its bank statements regularly, followed-up on checks outstanding for an undue amount of time, or stamped supporting documentation to indicate that a payment had been made Allowing checks to remain outstanding for long periods and not insuring that bank statements are reconciled regularly weakens the controls over cash disbursements. For example, a cash shortage may be concealed merely by omitting a check from the outstanding list.

After we informed the Assistant Comptroller of this matter, he assured us that corrective action would be taken The Comptroller stated that stamping supporting documents "CHECK ISSUED" to indicate payment had been made was an additional safeguard instituted to help eliminate the recurrence of an embezzlement incident involving the resubmission of the same documents to receive two payments. He said that additional personnel had been assigned to his office so that, in the future, supporting documents would be stamped, bank statements would be reconciled within 25 days of receipt, and outstanding checks over 90 days old would be investigated.

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Petty Cash Fund

Since the establishment of the petty cash checkwriting system on July 31, 1974, USRA internal auditors have conducted two audits of the fund. They reported on February 7, 1975, and February 25, 1976, that controls over petty cash fund activities needed improvement, but the Comptroller took no action. Two of the deficiencies noted in both audit reports were:

--lack of documentation to support voucher payments,

--lack of notation on supporting documents to indicate the check had been issued.

Our review of petty cash vouchers totaling about $6,000 disclosed deficiencies similar to those reported by the internal auditors. After our audit, the USRA Comptroller informed us that to prevent recurrence of these deficiencies, a new cashier for the petty cash fund had been appointed and a revised order on petty cash procedures issued.

We noted that during fiscal year 1976 there were 20 instances where petty cash funds were used to pay $190 of traffic fines assessed against USRA messengers. We noted that four of the violations occurred at USRA's office building where ample parking is normally available in its garage We also noted that USRA paid penalties for late payment of parking violations on two occasions.

USRA officials told us they had evaluated the propriety of using petty cash funds to pay parking fines and had concluded that although additional personnel could have been hired so that at least one employee remained with the vehicle while the other delivered the item, it is more efficient to incur and pay the fines. They also advised us that the payment of traffic fines is a proper exercise of its administrative discretion. We disagree and believe that the payment of traffic fines is an unauthorized expenditure of appropriated funds and should be discontinued.

## REGULAR ANALYSIS OF ACCOUNT BALANCES AND ADDITIONAL SUPERVISORY REVIEW COULD HELP MINIMIZE ERRORS

Our tests of accounting records revealed that many errors could have been avoided if accounts were regularly reviewed. For example, we noted that

--two subsidiary accounts receivables had erroneous credit balances and one subsidiary accounts receivable should never have been established;

--the "vouchers payable-Conrail" account and the "deferred credit" account--both normally credit balance accounts--had debit balances at June 30, 1976,

--fourteen subsidiary travel advance accounts had been outstanding for at least 6 months at June 30, 1976,

--four of the subsidiary travel advance accounts which existed at June 30, 1976, totalling $414 were those of former USRA employees

The Comptroller later told us that all of the errors had been corrected.

During our review of travel and representation expenses, we also noted numerous instances where the accounting codes were in error and amounts were charged to incorrect accounts For example:

--$2,030 was charged to travel expenses which should have been charged to representation;

--$769 which should have been recorded in the relocation account was recorded in the travel expense account;

--$213 was charged to representation for taxi fares or parking costs which should have been charged to the travel expense account. In addition, portions of vouchers 6464 and 8680 should have been charged to the travel account rather than to representation.

We believe that routine analysis and closer supervision would help to avoid the recurrence of many of these errors.

FINANCIAL STATEMENT
PREPARATION

We found a number of errors in USRA's June 30, 1976, financial statements. The cumulative total for obligations should have been $46,156,828 instead of $46,151,414 a difference of $5,414. Although a small portion of the difference could be attributed to rounding, the major portion resulted from mathematical errors. The Comptroller agreed to make the necessary corrections.

We also compared USRA's statement of expenditures to the statement of obligations and found that cumulative expenditures exceeded the cumulative total for obligations for the Office of Manpower Planning by $19,256 because two deobligations were improperly recorded and several vouchers were erroneously recorded in the Manpower Planning cost center. Expenditures also exceeded obligations in the Office of the Chairman by $71. The Comptroller told us that the items would be corrected in the accounting records.

In addition to these errors, we found that USRA does not prepare a statement of sources and application of funds with its financial statements. This statement is only prepared when specifically requested by us. Title 2 of the General Accounting Office Policy and Procedures Manual for Guidance of Federal Agencies provides that the statements of financial position and results of operations should be accompanied by a statement of sources and application of funds. Section 203 of the Government Corporation Control Act also requires that a statement of sources and application of funds be included in the report made by the Comptroller General to the Congress.

We believe the statement of sources and application of funds provides information on all significant transactions that affect the financial position and thus assists management in evaluating the ways in which the current resources are used. Because we are only required to audit the financial statements of USRA at least once every 3 years, several years may lapse during which no statement of sources and application of funds will be prepared under USRA's current practice. Therefore, we suggest that you require a statement of source and application of funds be prepared at the end of each fiscal year.

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Because of our continuing interest in USRA's financial management system we would appreciate being advised of any actions taken on our findings or suggestions. We also wish to extend our appreciation to your staff for the courtesy and cooperation given to our representatives during this audit.

Sincerely yours,

Hugh J. Wessinger

Hugh J. Wessinger
Associate Director